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SECURITY INFORMATION*Office Memorandum* • UNITED STATES GOVERNMENT

TO : Assistant Director, National Estimates

DATE: 12 October 1953

FROM : Assistant Director, Research and Reports

SUBJECT: Increased Output of Consumer Goods.

1. The decisions which have resulted in the increased emphasis on consumer goods output have both immediate and long range implications. A change in tactics is implied in that greater emphasis will probably be placed upon rewards and less emphasis on penalties as a means of increasing productivity of output in the USSR. The level of productivity is basically a function of four factors: (1) methods and techniques of production, (2) organizational efficiency, (3) attitudes of people in performing their functions as resources or inputs in production, and (4) the quantity of non-human resources. The first three are rather closely related and each is influenced by the combination of rewards and penalties that motivate people. To a very considerable degree the Soviet system has emphasized penalties and has tended to minimize positive incentives of an economic nature. Economic incentives, as opposed to political or power incentives, can be made available to the great mass of individuals in an economy. A striking example of the effects of a change in rewards upon the output of an economy is provided by Western Germany after the monetary reform of June 1948. Individual output rose rapidly and dramatically as purchasing power increased.

2. The production impact of incentives may be particularly important in agriculture. The historical organization of the collective and state farms has been such as to make it particularly difficult to relate rewards to effort or productivity. And when this organizational defect was added to the low level of rewards generally available, it is not surprising that agricultural output has lagged behind the rest of the economy. It may be noted that the relative income of farm people declined after 1947 as a result of the cut in prices in the kolkhoz markets; the most important price reductions have been in food. Price reductions on food increased the purchasing power of the urban workers, but not that of farmers.

3. The relationship between the increased output of consumer goods and more adequate incentives is a direct one. As the supplies of marketed consumer goods increase and the real cost to consumers falls, farmers and workers can realize additional satisfaction as a result of additional efforts. If additional income means only that

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you can buy more dark bread, of which you already consume as much as physically possible, the desire to put forth more effort must be a very limited one. But as more manufactured goods, more meats and fats, and more cheese and milk are readily available, additional money income operates as a powerful incentive. It is possible that the increased emphasis upon consumer goods would result in a long-run increase in the output of investment and defense goods, through the mechanism of increased farm and worker productivity. This would be true even though defense and investment expenditures (in real terms) constituted a smaller proportion of gross national product.

4. There is ample evidence that the Soviets have decided to increase the output of consumer goods, both in the short-run and in the long-run. The immediate emphasis has been on local and cooperative industries, by furnishing to these industries the materials that are needed for increasing production of such items as furniture. By this means, the tangible improvement in consumer goods availability in local markets will be almost immediate. There is also ample evidence to support the conclusion that increased food supplies are being distributed to civilian consumers. There is evidence to indicate that heavy industry will participate in the long-run increase in the production of consumer goods. Given the present small proportion of manufactured consumer goods to total gross national product, it should be possible for the USSR to increase the amount of such goods at a relatively rapid rate while at the same time maintaining the absolute level of investment and defense expenditures. In fact, an annual increase on the order of 25 percent in manufactured consumer goods (excluding food items) would still permit the absolute size of investment and defense expenditures to increase about 4 percent per year, if the gross national product continues to grow at a rate of approximately 6 percent per year. Whether the USSR will elect to increase the output of manufactured consumer goods by 25 percent a year is, of course, not yet known.

5. In summary:

a. The USSR is implementing plans to increase the output of agricultural products and manufactured consumer goods. It can do so without reducing the absolute amounts devoted to defense or to heavy industry.

NIE-90 dealt with the rate of growth, not absolute levels of investment.

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b. In the short run, such a policy will probably reduce the rate of growth of heavy industry or the expenditures for conventional armaments. However, in the long-run, increased farm and worker productivity could more than offset the effects of any temporary diversion of resources to the consumer sector.

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